

3PIM INTERNATIONAL (IFSC) LLP

The 3P way. Simple but not easy.

3PIM INDIA EQUITY (IFSC) FUND

An open-ended Restricted Scheme (Non-Retail) constructed as a Category III AIF under the IFSCA FM Regulations.

(JULY - SEPTEMBER 2026)

1P

Prudence of creating a portfolio of sustainable and reasonably valued businesses.

2P

Patience with businesses and markets. Risk in equities reduces as investment horizon increases.

3P

Performance is the outcome.

3PIM INTERNATIONAL (IFSC) LLP

"Patience is bitter, but its fruit is sweet."

- *Aristotle*

Dear Sir / Madam,

We are pleased to share the 6th quarterly update of 3PIM India Equity (IFSC) Fund. This Fund was launched on 6th May 2025 and has recently completed its first year.

Since inception, the Fund has outperformed MSCI India by 2.9%. The performance of 3PIM India Equity (IFSC) Fund is summarised in the adjoining table. Since inception, absolute returns have been negative, as INR has sharply depreciated (~9.5% annualised). The sentiment towards INR should improve due to strong forex reserves and BOP (balance of payment) aided by recent receipt of USD 136 bn through FCNR(B) and ECBs at a fixed rate for 3-5 years. With macro headwinds receding, we expect markets to play a catchup and the absolute returns to improve meaningfully over the next few years.

	CAGR USD Returns (%)	
Fund	3PIM India Equity (IFSC) Fund	MSCI India
Since Inception*	-6.2	-9.1

Source: Bloomberg, 3PIM International
*Inception Date: 06th May 2025
Note: Fund return is pre-tax, post-expenses for Class A1.
Data as of 30th September 2026.

Indian equities have undergone a significant time and price correction over the past two years. NIFTY is down 12.4% in INR terms between Sep'24 and Sep'26. During this period, despite multiple headwinds – geopolitical conflicts, tariffs, elevated gold imports, elevated FDI repatriation, and volatile oil prices – Indian economy grew at ~7.5% p.a. in FY25 & FY26, displaying tremendous strength and resilience.

This period also marked the emergence of the AI and Semiconductor supercycle. Lacking direct exposure to these themes, India effectively became a funding source for FIIs, driving significant capital outflows and causing Indian equities to sharply underperform EMs. On the back of USD 58 bn of net selling by FIIs over the past two years, the recent breach of the psychological 5% threshold by the US 10-year yield has triggered renewed FII selling.

We view this current episode of FII selling as bringing Indian markets, in all likelihood, close to the end of their underperformance cycle. In our assessment, the markets should quickly absorb the current round of FII selling and discount the high US yields, thus setting a base for sustained outperformance over the next few years. Investors should take advantage of attractive valuations, robust macroeconomic indicators, strong growth prospects, a peaking cost of capital, and FII under-ownership. The primary risk to our investment thesis is that US yields increase further above 6%, which may delay market returns. On a positive note, oil flows via Hormuz have recovered to ~90% of their pre-war levels.

It is important to remember at this juncture that in a secular growth economy like India, equities have played a catch-up after every prolonged period of underperformance. Over the past 25 years, following every 2-year drawdown of 15% or more in INR terms, subsequent 3-year returns have been significant *(details in the adjoining table)*.

Next 3 Year Nifty TRI Absolute INR Return	% of instances
>200	10
100 to 200	45
50 to 100	40
20 to 50	5
<20	0

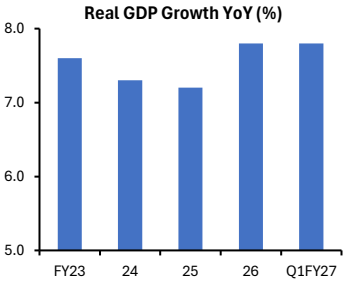
Table shows the distribution of next 3-year returns after every 2-year rolling drawdown of 15% or more, measured at month-end.
Source: Bloomberg, 3PIM

Indian Economy: Unperturbed by Global Turmoil

On the back of 7.8% growth in FY26, the GDP growth of 7.8% in 1QFY27 in a challenging global environment brings to fore once again the unique positioning and strengths of India. It is these strengths that make India not only the world's fastest-growing major economy, but also the least volatile in EMs.

India's Growth Drivers

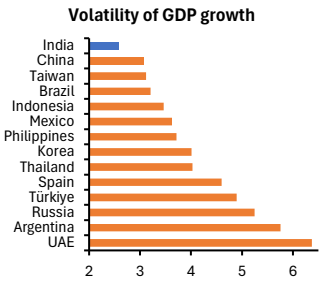
- Growing and young population
- Higher growth in number of families due to nuclearization / urbanization
- Skilled, educated and cost competitive manpower
- Vast availability of natural resources (sunlight, arable land, water, minerals (ex-oil))
- Entrepreneurship, stable social and political environment
- Shrinking product lifecycles
- Internet, digitalization, acceptability of remote working



Source: CMIE

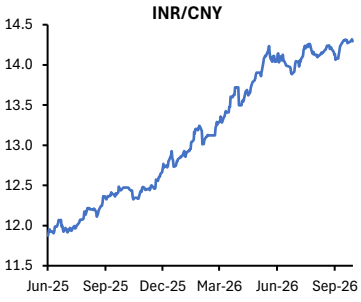


Source: IMF, 3PIM

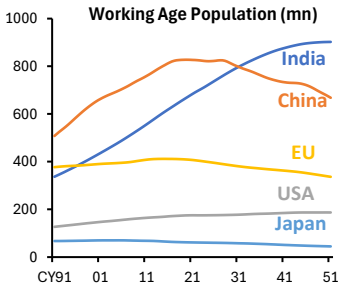


Source: IMF, 3PIM | Note: Volatility is calculated as standard deviation of Real GDP Growth from CY1980 till 2025.

Increasing traction in manufacturing, improved competitiveness vs China driven by INR depreciation vs CNY, easy availability of equity capital, and a favourable geopolitical environment together with great demographics, low per capita income and a favourable and improving business environment should facilitate strong and sustained growth for many years.



Source: Bloomberg



Source: United Nations Population Study

Annual Airline tickets as % of population	
India	12
Indonesia	35
Philippines	36
China	43
Brazil	45
Argentina	46
Germany	95
Japan	97
South Korea	147
US	274

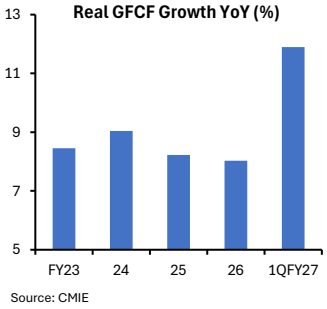
Source: World Bank, ICAO | Population and ticket data of 2023

The smooth sailing of the economy in this difficult period was aided by proactive management by the Government and the RBI. Lower GST rates, lower excise duties on petrol and diesel, and absorption of higher fertiliser and LPG costs by the government facilitated continued strength in domestic demand. Despite these revenue headwinds, fiscal deficit for the current year is likely to be on target. This is possible due to higher-than-budgeted tax collections (11% YoY in 4MFY27 vs 9% budgeted for FY27), upside to divestments (70% of the FY27 target achieved in 4MFY27), proceeds from economic

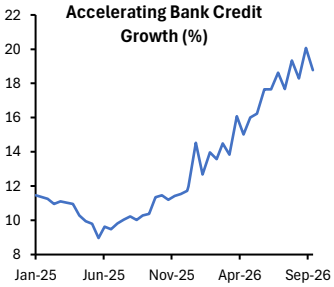
stabilisation fund (fund size INR 1 tn), room for a positive surprise on RBI surplus transfer, and some rationalisation of non-critical expenditure.

The timely mobilisation of USD 136 bn through FCNR(B) and ECBs at a fixed rate for 3-5 years has sharply improved forex reserves and BOP (Balance of Payments), thereby improving sentiment toward the INR, which in turn is supportive of capital flows. The strong reserves derisk India from the impact of higher oil prices and higher US yields for the medium term. Interestingly, oil flows via Hormuz have recovered to ~90% of their pre-war levels. If this sustains, oil prices should head lower as the oil markets are fundamentally oversupplied.

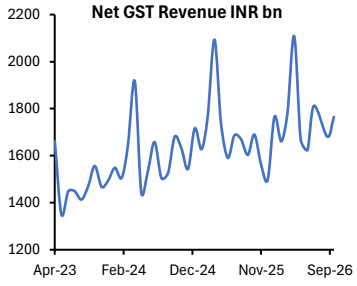
The quality of economic growth is also good. Gross fixed capital formation and manufacturing grew 12% YoY and 9% YoY respectively in 1QFY27 thus outpacing the economic growth. Strong growth in bank credit, GST, and power demand is indicative of broad-based economic buoyancy. Corporate and bank balance sheets are in the pink of health, while fiscal and current account deficits are low.



Source: CMIE



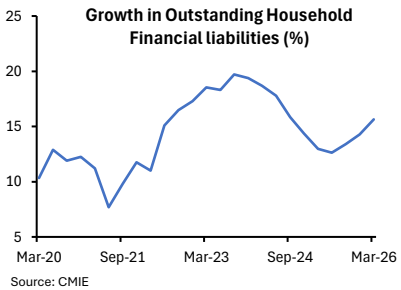
Source: RBI, 3PIM



Source: CMIE, GSTN

While we could see some moderation in growth in 2HFY27 due to higher base effect and a weak monsoon, there are several reasons to be optimistic about sustained and healthy economic growth over the medium term :

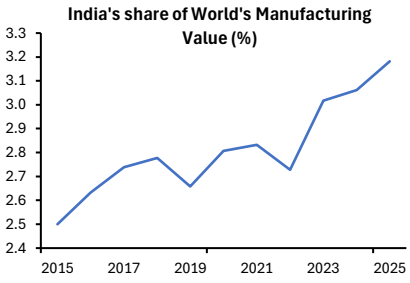
- The surge in gold prices has had a significant positive economic impact. Gold prices have doubled / tripled over the past two / five years, creating substantial wealth for Indian households and dramatically expanding the underlying collateral base. Indian households hold ~25,000 tonnes of gold, valued at nearly USD 4 tn. This aggregates to ~24% of household assets and is 4x the value of equity holdings. Unlike equities, gold ownership is widely distributed and supports consumption at the bottom of the pyramid. Organized gold loans as % of the total household gold holdings have increased from 3.5-4.0% historically to 5.0-6.0% recently. Driven either by gold loans or otherwise, household leverage is now rising again after falling for two years as retail lending accelerates.



Source: CMIE

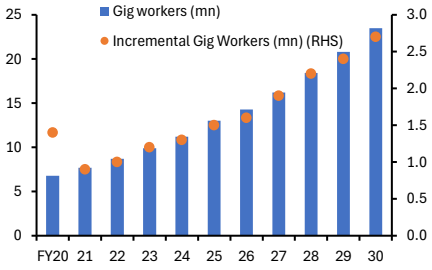
- The implementation of 8th Pay Commission will transfer an estimated ~1% of GDP as higher wages to central government employees, directly benefitting nearly 12mn families. Gradual adoption by state governments should further amplify the multiplier effect in subsequent years.

- Manufacturing is gaining strong traction due to structural tailwinds from "China+1" diversification, competitive labour costs, a weaker INR, supportive government policies, large pool of entrepreneurs, engineering talent and abundant capital availability. Manufacturing even outside of electronics is gaining momentum with exports excluding oil, gold, and electronics growing at >10% YoY during Apr-Jul 2026 in comparison to only 0.8% in FY26.



Source: UN Industrial Development Organisation, 3PIM

- Purchasing power is broadening as employment expands beyond traditional sectors. India's gig economy now employs ~14 mn people, 2.4x the number employed by the IT services sector and is adding 1.5-2.0 mn jobs annually. Average pay for gig workers is now comparable with that of some entry-level white-collar employees !



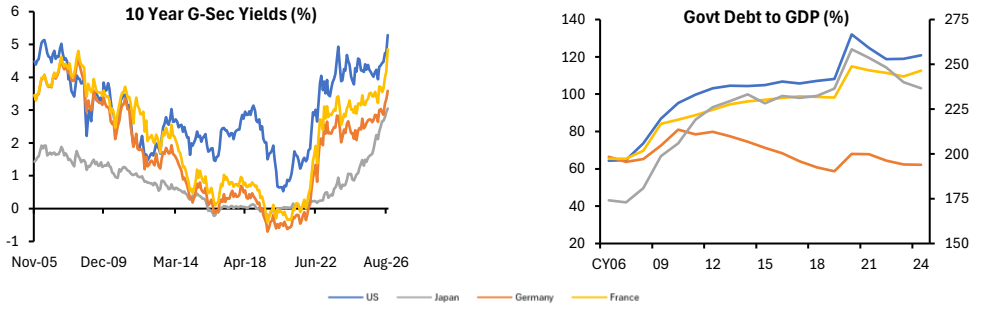
Source: Avendus Spark

External Risks – India is Well-Positioned to Navigate them

Indian economy is like a young body, that can manage a tough environment without falling ill.

The challenging external environment is mainly a result of sustained, high and rising fiscal deficits in several large economies viz, US, Europe, Japan, etc. Yields have thus been rising despite supportive monetary policies. It is interesting to note that Fiscal deficits have seldom been restrained by governments, unless the bond markets rebel.

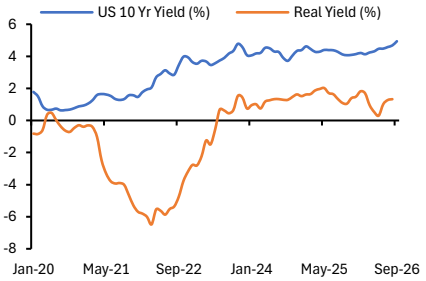
US govt debt now stands at USD 40 tn vs a GDP of ~USD 32.5 tn. At an average borrowing cost of ~3.5%, the US interest cost is currently USD 1.37 tn p.a., or 4.2% of GDP. The US interest burden will continue to rise, driven by a high fiscal deficit and the repricing of debt at higher interest rates.



Source: Bloomberg | Note: Japan (RHS) in Govt Debt to GDP

The world has been aware of this risk for many years. We have also consistently highlighted it across our investor communications. Now that the risk has played out, the key debate is where do US yields settle and how does it impact our economy and the markets.

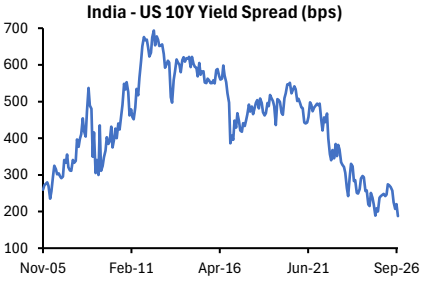
It is difficult to estimate where US interest rates settle but given the significant rise in US yields and the past range of real yields, our guess is that bulk of the rise is behind us and that yields should stabilise around the current levels at least for the foreseeable future. Latest US 10-year yield forecasts from Morgan Stanley, JP Morgan and Goldman Sachs expect the yields to settle in 4.75-5.00% range at end-CY26 from 5.29% in end-Sep 26. Any fall in oil prices will be supportive of lower US yields.



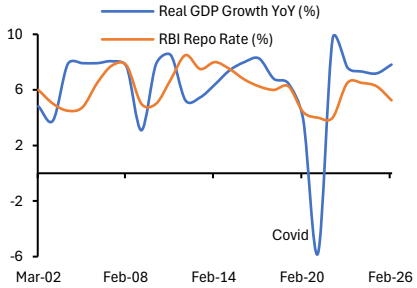
Source: FRED | Real Yield=10Y Yields-CPI

Fortunately, India is well positioned to handle an environment of elevated yields. India not only has strong net forex reserves of USD 700 bn (28x the average CAD over FY24-26), but its CAD and need for USD borrowings are also low. FDI is also trending healthy, with net inflows reaching ~USD 8 bn in the first quarter of FY27 compared to ~USD 7 bn for the whole of FY26.

The low gap between India and US yields increases the likelihood of RBI following in the footsteps of Fed and hiking rates further. Moderately higher rates should not impact growth as the economy has displayed resilience and early-stage rate hikes have not been a headwind for growth in the past.



Source: Bloomberg



Source: Bloomberg, CMIE

Indian exports are also less dependent on global growth and are inherently less volatile due to higher exposure to services and limited exposure to discretionary, luxury, and capital goods. Given India's miniscule share in global manufacturing exports, the bulk of the growth in exports should come from market share gains and not from market growth. This is similar to what has played out in services over the past three decades.

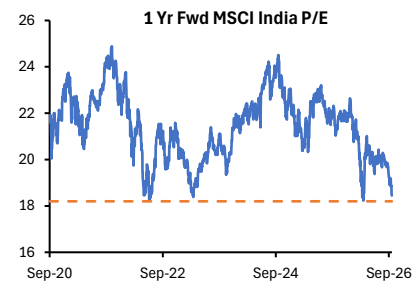
Market Outlook : The End of Consolidation Phase

At times, Uncertainty is Worse than Adversity for Asset Prices

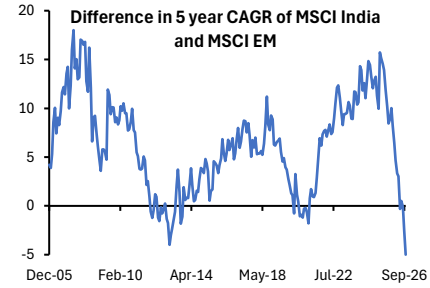
The rise in US yields to above 5% has removed a lingering fear and reduced uncertainty. The resulting resurgence in FII selling, after two years of market underperformance, is opening a window of opportunity for discerning investors.

The last two years of time-based consolidation and price correction have reduced multiples to attractive levels. India's five-year performance relative to EMs is also at a record low. Strong growth prospects, robust macro indicators, low corporate leverage, sustained domestic flows, and light FII positioning make this a compelling opportunity.

According to Kotak Institutional Equities, corporate profit growth for Nifty companies is estimated at 17.4% in the current fiscal year and 14.0% in the next. What's more, nearly 70% of sectors reported earnings growth of more than 10% in 1QFY27.

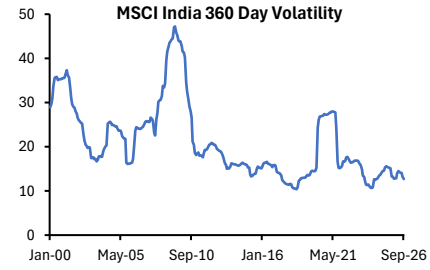


Source: Bloomberg

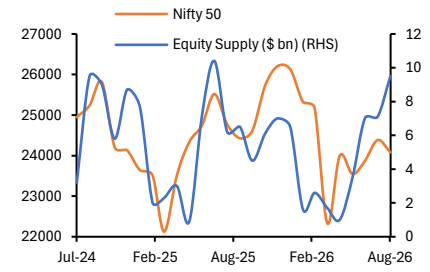


Source: Bloomberg

Primary-market activity has tended to decline sharply during periods of FII selling or falling markets. This helps absorb FII selling, and markets tend to rebound when selling subsides. Together with sustained and healthy local flows, this pattern has kept market volatility low despite USD 58 bn of FII selling over the past two years.

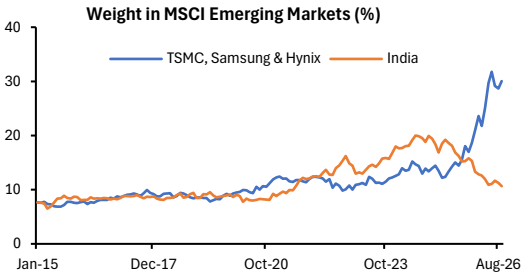


Source: Bloomberg



Source: Bloomberg, Jefferies | Equity supply includes IPOs, QIPs and promoter/PE blocks

One factor behind persistent FII selling over the past two years and India's consequent underperformance has been the lack of direct exposure to the popular AI theme. If a higher US cost of capital slows global economic growth and / or weakens momentum in semiconductor stocks, this could be positive for India, as the appeal for its steady, less volatile growth would increase.



Source: Jefferies

What Can Still Go Wrong ?

Charlie Munger often emphasized the importance of "Inverting" – the process of arguing for an outcome contrary to our assessment. Applying this to the current environment, we must ask – what could prolong the pain for Indian markets or still drive them lower?

Our optimistic outlook relies on the US 10-year yields not moving meaningfully higher from current levels i.e., 5.29% in end-Sep 26. If this proves incorrect and US yields move above 6%, it could be a different world we would be sitting in. In such an environment, one can expect slower global growth, lower investment rates, lower corporate profits, and stress on asset quality. We would also likely witness a sharp drop in commodity prices, a surge in equity risk premium, and a decline in equity valuations. Gold is difficult to forecast given its safe-haven appeal on one hand and a substantially higher opportunity cost on the other.

Specifically for India, economic growth would slow down, even though it will easily retain its status of the fastest growing major economy. FII outflows should accelerate and weigh on stock prices. However, the BOP should be aided by sharply lower oil and gold imports, and lower FDI repatriation, which together will probably more than offset FII outflows.

Particulars ($ bn)	FY19	FY23	FY24	FY25	FY26	Change from FY19
Net Oil Imports	94	112	95	123	120	26
Gold & Silver Imports	37	40	51	63	85	48
FDI Repatriation	19	29	44	51	54	35
FPI Outflows	1	5	-44	-4	18	17

Source: CMIE

Typically, such events also reverse momentum in asset prices causing the previous cycle's leaders and laggards to trade places. This would suggest, once the dust settles, Indian market could emerge stronger vs. the global semiconductor theme. While in India, SMIDs (Small and Mid caps) and large caps should also exchange places.

Lest one panics after reading this, one should remember that this is a less likely outcome. While long only portfolios are typically constructed for balanced market conditions, investors must still plan for such low probability high impact outcomes by focussing on asset allocation and investing in line with genuine risk tolerance and by limiting exposure to momentum-based sectors / themes.

Should this scenario materialize, it would not be unprecedented. The 1991 BOP crisis, the 2001 Dot-com bust, the 2008 Global Financial crisis, and the 2020 Covid-19 crash all inflicted short-term pain on the economy and markets. Yet, in every instance, Indian economy prevailed, and markets eventually surged to new highs over time.

In such critical moments, the key is to at least avoid panic selling, and, if possible, to buy. An investor's behaviour during such times will have a disproportionate impact on their long-term returns and wealth.

Riding out periods of consolidation and correction has historically delivered favorable outcomes for investors. The nature of equities is such that timing is extremely difficult. As the chart on next page illustrates, periods of consolidation have been followed by relatively short phases of strong returns. Over the past 15 years, the majority of returns have been generated in just 4 years. This reminds us why time in the market is more important than timing the market. We believe, eventually, the current phase of consolidation will be followed by a period of strong returns.

"The stock market is a device for transferring money from the impatient to the patient."

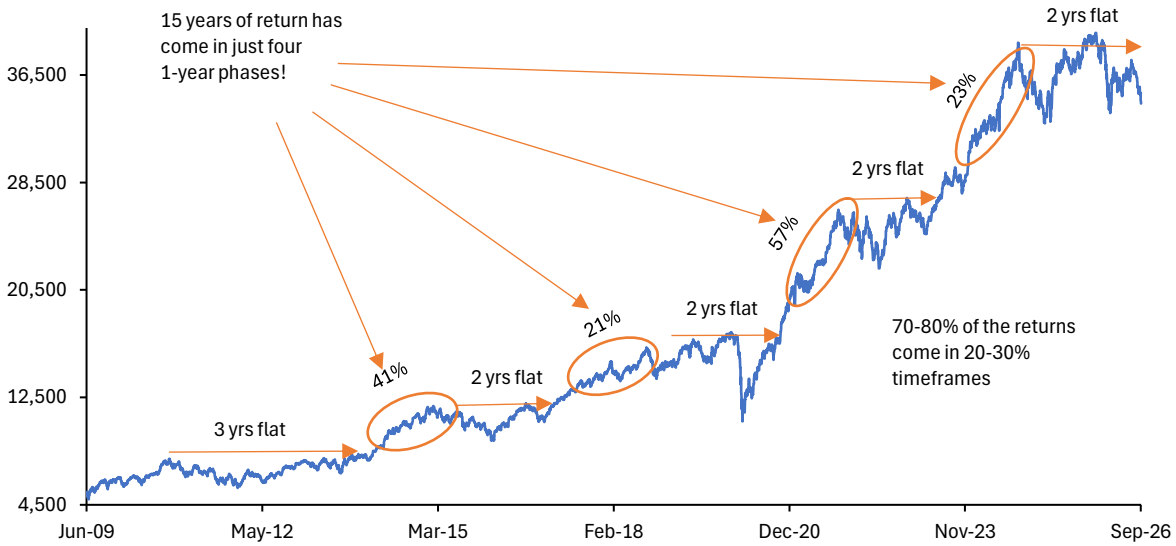
- Warren Buffett

While this outcome looks highly probable, the trajectory to it remains uncertain. We do not know whether the market will experience a further short-term correction before moving higher or begin its upward trajectory from current levels. It is with this perspective on the current market environment that we opened this commentary with the following quote :

"Patience is bitter, but its fruit is sweet."

- *Aristotle*

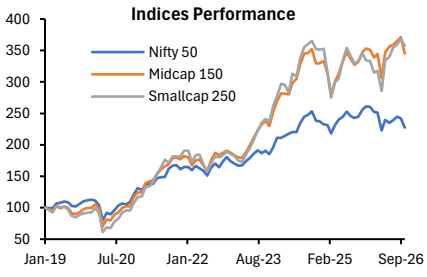
A Chart is Worth a Thousand Words - Nifty 50 TRI Performance



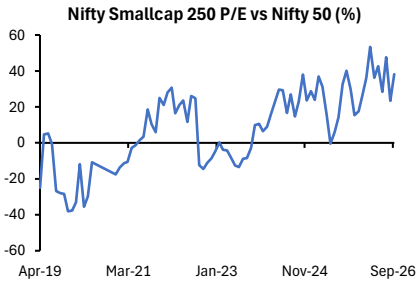
Source: Bloomberg, Inspired by Kotak Wealth

SMIDs Outperformance – Cyclical or Structural ?

SMIDs (Nifty MidSmallcap 400) have outperformed large caps (Nifty 100) in recent years. The trailing P/E multiples of large, mid and small caps are 18.9x, 27.4x and 27.9x respectively. Trailing multiples are considered as they are more reliable than forward multiples especially for small caps.



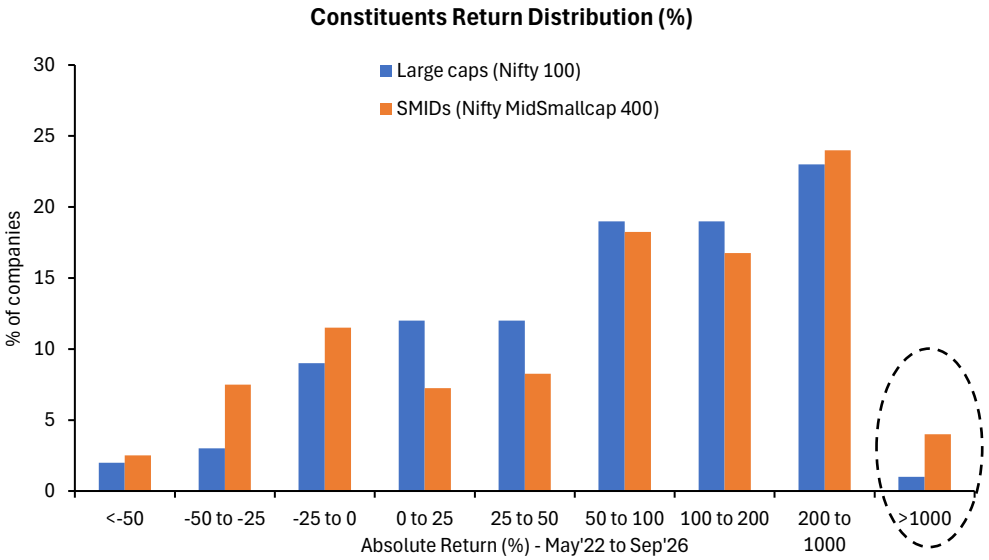
Source: Bloomberg | Total Return Indices | Indices are indexed at 100.



Source: Motilal Oswal IE | TTM P/E of Nifty Smallcap 250 index vs Nifty 50.

The key question is whether SMIDs outperformance is cyclical and will mean-revert or is structural and backed by superior growth.

Data tells an interesting story. We analysed returns from 1st May 2022 to 30th September 2026, beginning when SMIDs started outperforming large caps. During this period, Nifty MidSmallcap 400 index (SMIDs index) returned 99% vs 35% for Nifty 100 index (large caps index). **The surprising part was that bulk of the excess returns were driven by the top 4% of SMID stocks (16 stocks) with returns above 1,000% ! Beyond these outliers, the returns distributions were largely similar !**



Source: Nifty Indices, FactSet, 3PIM | Note: Y Axis - % of constituents, X Axis – Absolute return of constituents from May'22 to Sep'26.

Most of the outlier stocks in SMIDs are in manufacturing / power equipment etc. or are corporate turnaround cases. It is thus evident that specific themes / few companies with outsized returns have driven higher returns for the SMIDs index. It would therefore be erroneous to conclude that SMIDs as a category outperform or have outperformed.

The maximum number of outliers were in power related sectors. This is understandable as AI related capex has led to a massive demand for power generation and related equipment. Valuation multiples have risen nearly 3x to nearly 60x for these outliers. Continued outperformance of SMIDs thus largely depends on this theme continuing to deliver and the multiples continuing to hold !

Large caps on the other hand bore the brunt of massive selling by FIIs. This was compounded by company specific challenges at some of the Nifty heavyweights.

The tables below that analyse the profit and market cap share of large caps and SMIDs from FY16 to FY26, narrate a similar story. Excluding Metals and Oil & Gas, SMIDs' share of market cap rose from 25% in FY21 to 34% in FY26, while their share of aggregate profits remained broadly unchanged !

BSE500 Ex-Metals and Oil & Gas											
PAT - % contribution											
	FY16	17	18	19	20	21	22	23	24	25	26
Large caps	87	83	95	88	103	74	69	73	78	72	73
SMIDs	13	17	5	12	-3	26	31	27	22	28	27
Market Cap - % contribution											
	FY16	17	18	19	20	21	22	23	24	25	26
Large caps	75	71	72	73	78	75	72	72	69	69	66
SMIDs	25	29	28	27	22	25	28	28	31	31	34

BSE 500 Ex Loss- Making Companies											
PAT - % contribution											
	FY16	17	18	19	20	21	22	23	24	25	26
Large caps	79	79	76	77	74	72	73	73	77	74	75
SMIDs	21	21	24	23	26	28	27	27	23	26	25
Market Cap - % contribution											
	FY16	17	18	19	20	21	22	23	24	25	26
Large caps	78	75	75	76	80	76	75	74	72	70	69
SMIDs	22	25	25	24	20	24	25	26	28	30	31

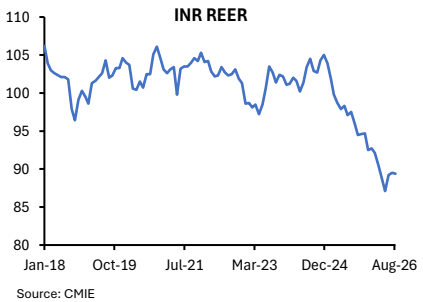
Source: Avendus Spark, 3PIM | Large caps are top 100 companies by weight in BSE 500 and SMIDs are next 400 companies.

This analysis suggests that the outperformance of SMIDs index is cyclical and should mean revert over time. SMIDs however comprise of a very large and diverse universe, including some sectors / themes with a long runway for growth and some uniquely positioned businesses. We believe a bottoms up selective approach to SMIDs is the right way to invest in this space rather than an approach that banks on continued category wide outperformance.

Conclusion: An Attractive Entry Point

In conclusion, the widely anticipated rise in US Treasury yields has materialised. Oil also remains elevated. EMs in general and India in particular have navigated this phase very well. This is because this time around several EMs including India have better fundamentals than in previous risk off episodes.

With the big move in US yields behind us, a USD 136 bn 3-5 year capital in the bag, strong forex reserves, contained current and fiscal deficits, there is no reason to be pessimistic or worried about India's macros.



Source: CMIE

After a sharp derating and massive FII selling over the past two years, Indian markets are well poised and offer attractive risk reward in our opinion. We believe the current episode of FII selling is unlikely to last beyond mid-December. The next few weeks / few months thus offer an attractive entry point with 40-50% upside in INR terms over 3 years and limited downside that too in the short run. Following a depreciation of ~8% over the past twelve months, the INR now appears undervalued based on REER data, which is favourable for foreign currency investors. **Even after assuming a further, modest depreciation of around 10% in the INR over the next three years, cumulative USD returns could still be 30-40%.**

As a category, large caps are more attractive, though SMIDs offer stock picking opportunities. Also, in the less likely scenario of US yields rising materially from the current levels, the downside protection in large caps is far superior to SMIDs.

Portfolio Strategy and Positioning

The investment philosophy at 3PIM International (IFSC) LLP is guided by a simple principle: *own strong businesses at reasonable valuations.* Owning strong businesses in their respective domains reduces the risk of permanent capital loss and paying reasonable valuations mitigates the risk of poor long-term returns.

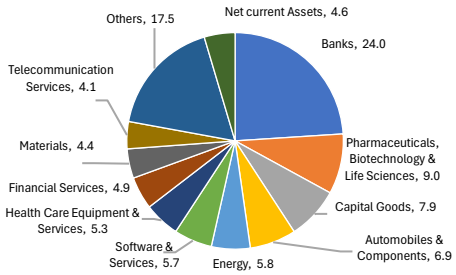
While some argue large caps lack growth and small caps represent a growing opportunity, the reality is nuanced. Corporate earnings growth is broad-based, with numerous companies across all market caps successfully compounding their profits. While there is froth in certain pockets, many SMIDs display strong fundamentals, and some large caps continue to demonstrate significant compounding and are undervalued. Rather than getting caught up in the debate of large caps vs. small caps, we focus on companies with strong fundamentals and reasonable valuations relative to growth.

The portfolio follows a flexi cap strategy. Our portfolio is diversified across sectors and key economic variables. Given the higher volatility and limited liquidity in SMIDs, we maintain a disciplined approach in allocating capital to individual SMID stocks and in aggregate as well. Further, our allocation to SMIDs is guided by our ability to identify companies that are strong and are reasonably valued relative to their growth prospects.

The Fund is overweight Banks, Consumer Services, Health Care Equipment, Insurance, Pharmaceuticals, Technology Hardware & Equipment, and Transportation and is underweight Automobiles, Capital Goods, Energy, Financial Services, Materials, Software & Services, Telecommunication Services and Utilities. Exposure to Food, Beverage & Tobacco and Household & Personal Products is close to market weights.

The Fund size is presently USD 91.2 mn. The charts below summarise the key portfolio characteristics as of 30th September 2026.

Exposure by Sector (%)



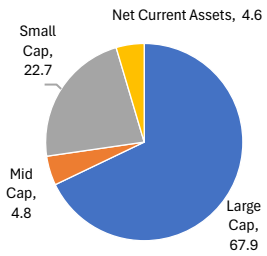
Source: 3PIM, Bloomberg, GICS classification

Exposure by constituents* (%)

Constituents	Weight
Top 5	31
Top 10	45
Top 20	64
Top 30	79
Top 40	89
Top 59	100

*Does not include Net Current Assets

Exposure by Market cap (%)



Source: 3PIM, AMFI
Note: As per AMFI classification.

The 3P way. Simple but not easy.

1P Prudence of creating a portfolio of sustainable and reasonably valued businesses.

2P Patience with businesses and markets. Risk in equities reduces as investment horizon increases.

3P Performance is the outcome.

3PIM International (IFSC) LLP has an investment advisory agreement with 3P Investment Managers (3PIM), which is led by two veteran fund managers – Prashant Jain and Ashwani Kumar. Before starting 3PIM, both individually managed multi-billion-dollar portfolios focused on listed Indian equities and together bring more than 60 years of experience in investment management. The assets under management of 3PIM stand at USD 2.4 bn. The 3PIM Fund (3PIEF-1) has outperformed the market in each of the three years of its existence. Both Prashant and Ashwani are part of our Investment Committee (IC). To avoid conflict of interest, normally, the members of IC will not purchase direct listed Indian equities in the secondary market.

We would like to express our deep gratitude for your trust and participation in the Fund. Through our long-term focus, disciplined approach, low costs and well-regarded advisors, we strive to build a long-lasting relation with you.

We plan to share the next Fund update around New Year 2027. We wish you and your family a happy and prosperous festive season.

Kindly note that 3PIM India Equity (IFSC) Fund is a dollar denominated open-ended Fund with zero exit load. The Fund is available for transactions on every 7th and 22nd of the month (previous day if it is a non-business day). Kindly also note that the Fund's NAV is on a post-tax basis.

Please feel free to reach out to the undersigned or services (3pgiftservices@3pim.com) for any clarifications, feedback or suggestions.

Warmly,

For 3PIM International (IFSC) LLP



Himanshu Agarwal
Email: himanshua@3pim.com
Vice President – Investments

3PIM International (IFSC) LLP
Unit 1116, 11th Floor, Signature Building, Bock 13B, Zone 1, Gift SEZ, Gift City, Gandhinagar, 382355 Gujarat India
gift.3pim.com 3pgiftservices@3pim.com +91 79 65179000